

Message Text

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ACTION ARA-10

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E.O. 11652: N/A
TAGS: FIN, CO
SUBJECT: NEW FINANCE MINISTER ANNOUNCES ADDITIONAL
 ECONOMIC MEASURES

1. THE NEWLY APPOINTED MINISTER OF FINANCE ABDON
ESPINOSA VALDERRAMA, WHO WAS SWORN IN EARLIER THAN
EXPECTED OVER THE HOLIDAYS, ANNOUNCED A SERIES
OF MEASURES TO CARRY ON THE FIGHT AGAINST INFLATION.
2. PRIOR IMPORT DEPOSITS WHICH HAD BEEN ELIMINATED
THE RESTORED AND PLACED AT 10 PERCENT BY HIS PREDECESSOR BOTERO,
HAVE NOW BEEN RAISED TO 30 PERCENT. URBAN RENTS HAVE BEEN FROZEN FOR
ONE YEAR. INTERNAL LETTERS OF CREDIT, WHICH CIRCULATE IN THE
EXTRA BANK MARKET WILL NO LONGER BE NEGOTIABLE AND MUST
REFLECT AN ACTUAL TRANSACTION FOR GOODS. THE REIMBURSEMENT FOR
COFFEE EXPORT EARNINGS HAS BEEN RAISED FROM 284.65 PER BAG TO 307.6.
3. THE NEW MINISTER CALLED THE INITIATIVES PART
OF A MULTIPLE AND BASIC OFFENSIVE AGAINST INFLATION,
AND THE PRESS HERALDED THE MEASURES AS TRANSCENDENTAL,
BUT IN OUR VIEW THERE IS NOT MUCH IN THEM TO MAKE A STRONG
IMPACT ON INFLATION. WHILE THE RENTAL FREEZE IS

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A DEPARTURE FROM BOTERO'S PREFERENCE FOR MARKET
CONFORMING TOOLS, PRESIDENT LOPEZ HAS TALKED ABOUT
AN INCOMES POLICY ON NUMEROUS OCCASIONS. FREEZES ON
RENTS HAVE BEEN TRIED IN THE PAST WITHOUT MUCH
POSITIVE EFFECT AND ARE RISKY BECAUSE THEY CREATE
DISTORTIONS THAT ARE NOT EASILY UNDONE. THE PRIOR

IMPORT DEPOSIT WILL ABSORB SOME 3.6 BILLION PESOS
ACCORDING TO ESPINOSA, ALTHOUGH BY INCREASING THE
COST OF IMPORTING IT WILL HAVE AN EXPANSIONARY
IMPACT ON THE ECONOMY BY SLOWING THE DOLLAR OUTFLOW.
THE COFFEE REIMBURSEMENT IS SIMPLY AN ADJUSTMENT TO
THE EXPORT PAYMENT MECHANISM REQUIRED BY THE MOST
RECENT INCREASE IN NEW YORK COFFEE PRICES. THIS
MEASURE WILL TEND TO INCREASE THE DOLLAR INFLOW. THE
RESTRICTIONS ON THE INTERNAL LETTERS OF CREDIT, THE
MOST INTERESTING OF THE NEW MEASURES, IS AN ATTEMPT
TO SHRINK THE EXTRA BANK MARKET, PERHAPS TO PREPARE
THE WAY FOR A REDUCTION IN THE RATE OF INTEREST.

4. ESPINOSA ISSUED THE DECREES ESTABLISHING THE
MEASURES FROM THE RESORT ISLAND OF ROSARIO, PROBABLY
TO TAKE ADVANTAGE OF THE SCARCITY OF NEWS OVER THE
HOLIDAYS TO OBTAIN WIDE AND FAVORABLE PRESS COVERAGE AND
TO GIVE THE IMPRESSION THAT A VIGOROUS NEW FIGHT AGAINST
INFLATION WILL BE CARRIED ON BY THE NEW MINISTER.
SANCHEZ

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